

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 NSF-02 DOE-15 NSC-05 COME-00
AID-05 CEQ-01 CIAE-00 SOE-02 DODE-00 EB-08 EPA-04
INR-10 IO-14 L-03 NSAE-00 PM-05 ICA-20 OES-07
SS-15 SP-02 INT-05 NASA-02 NAS-01 ACDA-12 NRC-07
/170 W

-----100263 072022Z /70

R 071903Z JUN 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 7642
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO

UNCLAS SECTION 01 OF 03 OTTAWA 02869

E.O. 11652: N/A
TAGS: TECH, PARM, CA
SUBJECT: INCREASED CANADIAN GOVERNMENT SUPPORT FOR
RESEARCH AND DEVELOPMENT

DEPARTMENT PLEASE PASS NSF, DOE, WHITE HOUSE FOR
DR. PRESS AND COMMERCE FOR WOLEK

1. SUMMARY: JUDD BUCHANAN, MINISTER OF STATE FOR
SCIENCE AND TECHNOLOGY ANNOUNCED ON 1 JUNE 1978 THAT
THE GOC IS TAKING NEW STEPS TO STIMULATE INDUSTRIAL
RESEARCH; TO CREATE JOBS FOR SCIENTISTS, ENGINEERS,
AND TECHNICIANS; AND TO PROVIDE ADDITIONAL SUPPORT FOR
UNIVERSITY RESEARCH. THE COST OF THE ADDITIONAL
MEASURES TO BE TAKEN IN FISCAL 1978-79 IS \$28.7 MILLIONS.
HE ALSO ANNOUNCED A NATIONAL TARGET FOR R&D EXPENDITURES
OF 1.5 PERCENT OF THE GROSS DOMESTIC PRODUCT (GDP)
BY 1983, WHICH IS HIGHER THAN HAS EVER BEEN ACHIEVED
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IN CANADA. END SUMMARY.

2. IN 1977 CANADA SPENT ABOUT \$2 BILLION ON R&D.
ALTHOUGH TOTAL EXPENDITURES HAVE INCREASED IN CURRENT
DOLLARS EACH YEAR SINCE 1963, IN CONSTANT (1971) DOLLARS
THE R&D EXPENDITURES HAVE REMAINED AT ABOUT \$1.1 BILLION
SINCE 1970.

3. IN TERMS OF PERCENTAGE OF GDP DEVOTED TO R&D, CANADA'S EXPENDITURES HAVE BEEN LOWER THAN THOSE OF THE OTHER MAJOR OECD COUNTRIES. IN ITS TOTAL EXPENDITURES ON R&D (AS A PERCENTAGE OF GDP) IN 1975, CANADA TIED WITH NORWAY AND DENMARK AT 1.1 PERCENT WHICH WAS LESS THAN HALF OF THE PERCENTAGES FOR SWITZERLAND, WEST GERMANY, AND THE UNITED STATES.

4. ON THE BASIS OF R&D FINANCED BY INDUSTRY, CANADA IS AT THE BOTTOM OF THE 12 OECD COUNTRIES WITH ONLY 33 PERCENT OF ITS TOTAL R&D FINANCED BY BUSINESS. IN TERMS OF PERCENTAGE OF GDP, CANADA'S R&D EXPENDITURES IN THE BUSINESS SECTOR IS ONLY 0.6 PERCENT--TIED FOR LAST PLACE WITH FINLAND AND DENMARK. THIS IS LESS THAN ONE THIRD OF THE PROPORTIONATE FUNDING BY INDUSTRY IN THE U.S. AND U.K. AT 1.9 AND 1.8 PERCENT, RESPECTIVELY.

5. THE THEME OF THE NEED FOR MORE TECHNOLOGICAL INNOVATION HAS BEEN DISCUSSED IN VARIOUS SECTORS OF THE GOC FOR THE PAST TWO YEARS. THE CONCEPT IS THAT CANADA MUST INCREASE ITS LEVEL OF TECHNOLOGICAL INNOVATION IN INDUSTRY TO BE COMPETITIVE AND TO SURVIVE IN THE WORLD MARKET FOR HIGH TECHNOLOGY PRODUCTS.

6. TO STIMULATE SUCH TECHNOLOGICAL INNOVATION, THE GOC
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HAS TAKEN SEVERAL STEPS WITHIN THE PAST YEAR INCLUDING:
A) AN ANNOUNCEMENT THAT INDUSTRY WOULD RECEIVE AN IMMEDIATE 100 PERCENT TAX WRITE-OFF OF R&D EXPENDITURES;
B) A 150 PERCENT TAX WRITE-OFF FOR NEW R&D EXPENDITURES,

WHICH ARE IN EXCESS OF THE AVERAGE AMOUNT SPENT ANNUALLY BY THE COMPANIES DURING THE PAST THREE YEARS; AND C) DIRECT ASSISTANCE FUNDING OF R&D PROGRAMS BASED UPON PROPOSALS SUBMITTED BY INDUSTRY.

7. THE NEW MEASURES, ANNOUNCED BY BUCHANAN ON 1 JUNE 1978, INCLUDE THE FOLLOWING:

- -- A NATIONAL TARGET FOR R&D EXPENDITURES OF
- 1.5 PERCENT OF GDP BY 1983.

- -- THE USE OF GOVERNMENT PROCUREMENT PRACTICES
- TO SUPPORT INDUSTRIAL RESEARCH AND DEVELOP-
- MENT IN CANADA.

- -- EXPANSION OF GOVERNMENT CONTRACTING-OUT
- POLICIES BY ADDING \$1.5 MILLION IN EACH

- OF THE NEXT TWO YEARS FOR UNSOLICITED
- PROPOSALS FROM INDUSTRY.

- -- A \$3 MILLION PROGRAM TO CREATE JOBS FOR
- SCIENTIFIC AND TECHNICAL PERSONNEL TO
- UNDERTAKE RESEARCH PROJECTS IN UNIVERSITIES
- AT THE REQUEST OF CANADIAN FIRMS.

- -- THE ADDITION OF \$5 MILLION TO THE NATIONAL
- RESEARCH COUNCIL'S (NRC) PROGRAM OF INDUSTRY/
- LABORATORY PROJECTS (PILP).

- -- EXPANSION BY \$350,000 OF THE NRC'S TECHNICAL

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INFO OCT-01 EA-12 ISO-00 NSF-02 DOE-15 NSC-05 COME-00
AID-05 CEQ-01 CIAE-00 SOE-02 DODE-00 EB-08 EPA-04
INR-10 IO-14 L-03 NSAE-00 PM-05 ICA-20 OES-07
SS-15 SP-02 INT-05 NASA-02 NAS-01 ACDA-12 NRC-07
/170 W

-----100642 072023Z /70

R 071903Z JUN 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 7643
INFO AMEMBASSY BONN
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- INFORMATION SERVICES FOR SMALL BUSINESSES.

- -- USE OF CANADIAN PATENTS AND DEVELOPMENT LTD.
- AS A CLEARING HOUSE BETWEEN GOVERNMENT AND
- INDUSTRY TO FACILITATE THE TRANSFER OF
- TECHNOLOGY.

- -- ESTABLISH, OVER TWO YEARS, OF UP TO 5
- REGIONAL UNIVERSITY-BASED INDUSTRIAL RESEARCH
- AND INNOVATION CENTRES (IRIC), WITH \$2 MILLION
- AVAILABLE THIS YEAR.

- -- CREATE CENTRES OF EXCELLENCE ON A REGIONAL
- BASIS TO ACHIEVE BETTER INTEGRATION OF
- GOVERNMENT, UNIVERSITY, AND INDUSTRIAL
- RESEARCH CAPACITY, BASED ON THE NATURAL AND
- HUMAN RESOURCES OF EACH AREA.

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- -- AN INCREASE OF \$10 MILLION THIS YEAR IN
- THE BUDGETS OF GRANTING COUNCILS FOR
- UNIVERSITY RESEARCH IN AREAS OF NATIONAL
- CONCERN.

8. THIS NEW PACKAGE WILL AMOUNT TO AN INCREASE IN THE CURRENT BUDGET OF \$28.7 MILLION WHICH IS CONSIDERED TO BE A SUBSTANTIAL INCREASE BY CANADIAN STANDARDS. IT IS HOPED THAT THE TARGET OF 1.5 PERCENT OF GDP FOR R&D BY 1983 WILL BRING CANADA UP TO THE STANDARDS OF OTHER LEADING INDUSTRIAL COUNTRIES.

9. THE TWO NEW TAX INCENTIVES ARE EXPECTED TO COST \$485 MILLION IN FOREGONE REVENUES THIS YEAR, AGAINST AN ESTIMATED INCREASE IN INDUSTRIAL R&D EXPENDITURES OF \$175 MILLION.

10. THE DIRECT R&D ASSISTANCE PROGRAMS FOR INDUSTRY AND THE R&D CONTRACTING-OUT POLICY WILL RESULT IN FEDERAL EXPENDITURES OF \$275 MILLION IN THE CURRENT FISCAL YEAR.

11. THE PROGRAM TO PROVIDE NEW JOBS FOR SKILLED GRADUATES IN INDUSTRY, THE SCIENCE AND TECHNOLOGY EMPLOYMENT PROGRAM (STEP), WHICH WAS ANNOUNCED IN FEBRUARY, IS INCLUDED IN THE BUDGET AT \$5.5 MILLION. THIS WILL NOW BE SUPPLEMENTED BY THE NEW PROGRAM, TO PROVIDE JOBS IN THE UNIVERSITIES TO CARRY OUT R&D IN SUPPORT OF SMALLER FIRMS, AND WILL COST AN ADDITIONAL \$3 MILLION.

12. THE PRESENT BUDGET FOR UNSOLICITED PROPOSALS FROM INDUSTRY AND UNIVERSITIES IS \$12 MILLION. THIS WILL

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BE AUGMENTED BY \$1.5 MILLION IN EACH OF THE NEXT TWO YEARS.

13. COMMENTS: IF CANADA DOES ACHIEVE AN R&D EXPENDITURE LEVEL OF 1.5 PERCENT OF ITS GDP BY 1983, IT SHOULD SERVE TO BRING R&D IN CANADA OUT OF ITS CURRENT DOLDRUMS. HOWEVER, IT IS ONE THING TO SET A TARGET AND ANOTHER TO FUND IT DURING TIMES OF ECONOMIC STRESS.

14. THE OBJECTIVE OF STIMULATING INDUSTRIAL INNOVATION THROUGH R&D IS INDEED NOTEWORTHY AND THE TAX-INCENTIVE APPROACH MAY BE LESS SUSCEPTIBLE TO PEAKS AND VALLEYS OF FUNDING THAN IS R&D SUPPORTED ON THE BASIS OF PROPOSAL SUBMISSIONS, OR THROUGH OVERHEAD ALLOWANCES (AS IS IR AND D IN THE U.S.). THE TAX MECHANISM ALSO PROVIDES MORE INDEPENDENCE TO THE INDUSTRY IN SELECTING THE AREAS OF R&D TO PURSUE.

15. ONE OBSTACLE TO THE INCREASE IN INDUSTRIAL R&D AND THEREFORE "TECHNOLOGICAL INNOVATION" IN CANADA, IS THE FACT THAT MANY OF THE MAJOR CANADIAN FIRMS HAVE U.S. PARENTS. THESE PARENT ORGANIZATIONS USUALLY HAVE MAJOR R&D PROGRAMS AND FACILITIES WITHIN THE U.S. AND ARE NOT LIKELY TO ESTABLISH R&D FACILITIES IN CANADA AND TO SPEND SUBSTANTIAL AMOUNTS OF MONEY IN CANADA TO PROMOTE "TECHNOLOGICAL INNOVATION" THERE, REGARDLESS OF TAX INCENTIVES. HOWEVER, THERE IS A SIDE BENEFIT TO CANADA FROM THESE PARENT/SUBSIDIARY RELATIONSHIPS, WHICH IS THAT SOME \$300 TO \$500 MILLION WORTH OF U.S. TECHNOLOGY IS TRANSFERRED EACH YEAR TO CANADIAN SUBSIDIARIES. UNFORTUNATELY, THIS DOES LITTLE TO HELP CANADA'S GOAL OF INDEPENDENCE IN THE DEVELOPMENT OF HIGH TECHNOLOGY PRODUCTS. END OF COMMENTS.

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INR-10 IO-14 L-03 NSAE-00 PM-05 ICA-20 OES-07
SS-15 SP-02 INT-05 NASA-02 NAS-01 ACDA-12 NRC-07
/170 W

-----100397 072024Z /70

R 071903Z JUN 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 7644

INFO AMEMBASSY BONN
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16. THE TEXT OF MINISTER BUCHANAN'S ANNOUNCEMENT AND
ITS SUPPORTING DOCUMENTS ARE BEING POUCHED TO THE
DEPARTMENT.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: SCIENTIFIC COOPERATION, RESEARCH, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 07 jun 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978OTTAWA02869
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780238-0502
Format: TEL
From: OTTAWA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780686/aaaacwan.tel
Line Count: 290
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: cdeacc8f-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2454948
Secure: OPEN
Status: NATIVE
Subject: INCREASED CANADIAN GOVERNMENT SUPPORT FOR RESEARCH AND DEVELOPMENT DEPARTMENT PLEASE PASS NSF, DOE, WHITE HOUSE FOR
TAGS: TECH, PARM, CA
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/cdeacc8f-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014